BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

The Hog-Corn-Pork Situation

Increased Supplies, Lower Prices in Prospect

A record size 1948 corn crop and favorable hog-corn price ratios in recent months laid the groundwork for a large expansion in the 1949 spring pig crop. However, with corn prices supported at profitable levels and considerable uncertainty as to prospective hog prices for the 1949-50 fall and winter months, when hogs from the spring pig crop would be marketed, farmers have had difficulty reaching final decisions as to breeding, feeding, and marketing plans.

Development of any substantial amount of unemployment or decline in personal income during 1949 would result in a further downward adjustment in meat and livestock prices. The predominant opinion at this time suggests a continuation of high employment and income through 1949 although there are indications that the strong postwar inflationary movement has come to a halt, at least temporarily, and that general economic weakness could develop before the end of the year.

If employment and income payments continue at current levels and hog marketings in the fourth quarter of 1949 increase no more than 10 per cent over the 1948 level, hog prices would be expected to average somewhat lower than in the fourth quarter of 1948 but above support levels. If combined with a 10 per cent drop in personal income payments, however, prices probably would decline at least to support levels, particularly at any time marketings exceeded the anticipated volume.

Supplies of beef and lamb are expected to be smaller in 1949 than in 1948, offsetting some of the price depressing influence of increased pork supplies. A further consideration in the behavior of hog prices in the fourth quarter of 1949, of course, will be meat packers evaluation of meat supply and price prospects for the spring and summer months of 1950. An aggressive storage demand for pork in the winter of 1947-48 contributed to the high December and January prices of that period. Storage demand in the current season was less aggressive. If the trend of prices and income payments should be level or downward in the winter months of 1949-50, the storage demand for pork probably would become a strong price supporting factor only after prices had declined substantially.

Consumer expenditures for meat following the end of price control in 1946 were high relative to consumer incomes. Meat expenditures accounted for 6.3 per cent of disposable personal incomes in 1947 compared with around 5.5 per cent in the late 1930's and 4.4 per cent average for 1942-45 when meat prices were under OPA control. The percentage relationship to incomes rose to a high point of 6.9 in the second quarter of 1948. There are indications, however, that it receded in the last quarter of the year. "There is some evidence," reported the Bureau of Agricultural Economics, "that the gradually rising demand for meat in the last two years has leveled off from the high point reached last summer." Whether this represents a continuing adjustment in the direction of prewar expenditure patterns for meat is still uncertain. The BAE estimates that such an adjustment, should it occur, would result in a level of meat prices relative to income about 10 per cent lower than in 1947 and 1948.

SIZE OF SPRING PIG CROP IN DOUBT

Unusual factors in the hog-corn-pork situation are indicated by a prospective increase of only 10 per cent in number of 1949 spring pigs in the face of corn supply and price conditions which in previous years commonly resulted in spring pig crop increases of one-fifth to one-fourth. Early last December, farmers reported intentions to breed 14 per cent more sows to farrow in the spring of 1949 than in the previous year. But this is expected to increase pig numbers by only 10 per cent, to 56.5 million, according to the U. S. Department of Agriculture, as the number of pigs saved per litter in 1948 was a near record of 6.44 and is not expected to be equaled this spring. The Department had recommended an increase of 17 per cent in the spring pig crop to 60 million head. The indicated 56.5 million pigs, if realized, would be the third largest spring pig crop of record, but substantially below the very large crops of 1942 and 1943.

Although farmers' December intentions are not a certain indicator of the size of the spring pig crop to follow, such reported intentions in past years usually have shown later developments with a fair degree of accuracy (see Chart 1). Even though the intentions reported in Decem-

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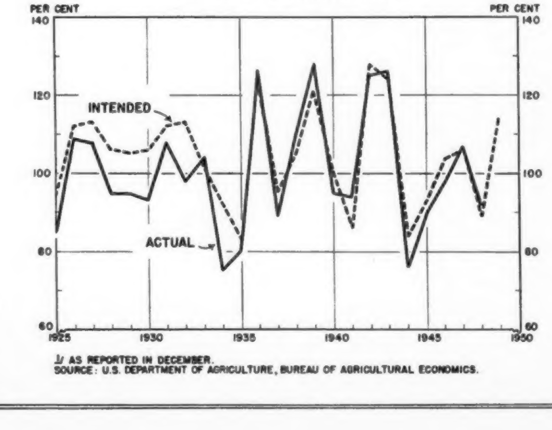
CHART 1

BREEDING INTENTIONS[1] FOR SPRING PIGS COMPARED WITH SOWS FARROWED
1925-49
(PER CENT OF PREVIOUS YEAR)



[1] AS REPORTED IN DECEMBER.
SOURCE: U.S. DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS.

Unemployment Moves Upward

Rising Labor Force and Layoffs Increase Jobless Ranks

Recent increases in unemployment provide further important confirmation of the slide-off in business observed earlier in terms of lagging sales and orders. The number of jobless in the Seventh Federal Reserve District is currently estimated to be about 575,000 persons, compared with 325,000 a year ago. Total employment in both agricultural and nonagricultural activities, however, is about equal to last year's level, reflecting that the increase in the number of new persons seeking jobs has been more important than industrial layoffs in contributing to current numbers of unemployed.

Principally because of this continued high level of aggregate employment, and because of the cushioning effects of unemployment compensation payments to workers laid off, no appreciable decline in personal income as yet appears to have occurred. In fact, total personal income in February 1949 nationally was five per cent above the same month of 1948, and this general relationship seems likely to hold for the District as well. The recent rise in unemployment, following the prewar pattern, has had significant psychological repercussions upon business and consumer expectations. Joblessness is feared both for its causes and its effects. To date, unemployment has not risen enough to constitute a strong cumulatively depressing force, but this may well occur later in the year if the underlying trend is not reversed.

Seventh District states appear to be having a greater relative increase in unemployment, as compared with last fall, than the nation as a whole. This is because of a very low level of jobless in the District last year rather than because of any unduly high figure currently. However, the District's principal durable goods industries—steel, automobiles, and machinery—may very well undergo market adjustments this year similar to those which most nondurable goods industries experienced in 1948. Thus, still further employment readjustments are in prospect for the Midwest, along with some possible gains in certain lines which had employment set-backs last year.

Both cyclical and seasonal developments have combined to produce the recent rise in unemployment. Barring some new and unexpected development, the peak of the postwar boom now appears to have been passed, and thus the cyclical influence on employment seems to have started down at a slow rate. During the last five to six months declines have occurred in most business measures, including employment. In addition, seasonal considerations, after extended absence, have begun to reassert themselves. During January and February the seasonal lull definitely accentuated whatever cyclical decline may be under way. In fact, many developments in the recent slide-off in business are traceable to a seasonal rather than a cyclical downturn, and hence there may be less reason for deep concern over business prospects than held in certain quarters.

During March, however, the spring increase in buying and the reactivation of seasonally depressed manufacturing and construction operations began to exert an opposing force on the cyclical decline, resulting in a decrease in total layoffs and some limited rehiring. The current month promises to test the strength of the two forces in both the Midwest and the nation, with the seasonal perhaps favored for the period immediately ahead. If the spring buying increase fulfills current hopes, including a good revival in new construction contract awards, the cyclical decline will be halted at least for the early part of 1949. However, if an important seasonal upturn does not develop soon, prospects for business and unemployment seem likely to worsen as the year progresses.

WHAT IS UNEMPLOYMENT?

The apparent paradox of continued high over-all *employment* and increasing *unemployment* is explainable in terms of the "labor force" concept developed during the past decade. All persons 14 years of age or older who are employed or are seeking work are considered to be in the labor force. In an increasing population—particularly one in which the number of persons of working age is increasing—the labor force may be expected to rise year by year. Hence, aggregate employment must increase each year to keep unemployment at a minimum. Stated conversely and more specifically, if average employment in 1949 were to be exactly equal to the 1948 average, the total number of unemployed could be expected to increase by the net addition to the labor force, an expected one million persons.

Correct estimates of the labor force are difficult because of the psychological factor of whether particular persons choose to report themselves as seeking work. From a practical standpoint, the problem centers principally around the female segment of the labor force. For example, a working girl may get married, begin housekeeping immediately, and remove herself from the labor force. Later she may decide that family budget pressures require a return to work and so she may re-enter the work force. As a matter of fact, thousands of such movements into and out of the labor force occur daily Through the use of sampling techniques, the United States Bureau of the Census measures these changes each month and publishes the results in its series of Current Population Reports called the Monthly Report of the Labor Force. This release likewise supplies the official estimates of the number of persons employed and unemployed each month.

All unemployment is not economically significant. It is obviously not possible in a free job market to reduce

joblessness to zero because there will always be certain persons who are changing jobs or entering the labor market and thus are "unemployed" in the interim. This is commonly described as frictional unemployment. Even in the peak wartime year, i.e., 1944, an average of 670,000 persons, according to the Census Bureau, were unemployed. In view of the restrictions on job changes enforced through the War Manpower Commission, this number would appear to represent an irreducible minimum of unemployment.

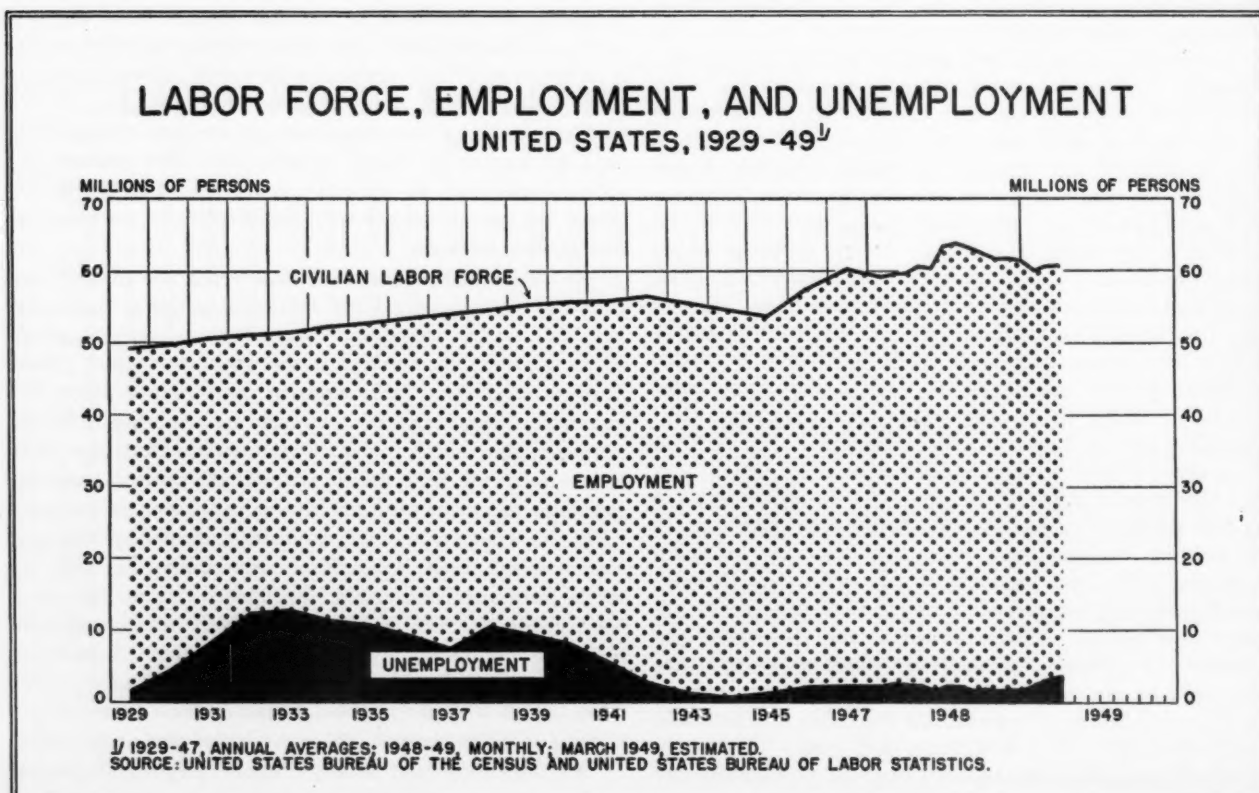
A more realistic peacetime minimum might be derived, however, by taking the average unemployment for 1947 and 1948. During these years general business reached a hitherto undreamed-of level of activity and, in the main, persons willing and able could find work readily. Yet unemployment still averaged about two million persons. Except for certain minor depressed areas, such as towns surrounding marginal coal and metal mines, this unemployment in large part represented persons who were changing from one job to another. In addition, during the high level years of 1947 and 1948, unemployment in the months of January and February was markedly greater than the average for the year, a pattern which also obtained in the prewar year of 1940. The peak month for unemployment in each of these years (considered in relation to the civilian labor force for that month) was February.

Viewed in this manner, the irreducible minimum unemployment for March 1949—that is, the proportion of the labor force which was either seasonally unemployed or "between jobs" as indicated by the 1947 and 1948 averages—would be about 2.5 million persons. The estimated number in excess of this could be described as "economic" or "cyclical" unemployment. Estimates for March show a total of 3.2 million unemployed. As defined above, roughly 700 thousand would comprise "economic unemployment," a much smaller, although still significant, number.

MIDWEST UNEMPLOYMENT TRENDS

Total unemployment in the five states of the District is estimated to be 575,000 currently, as compared with about 200,000 last November. As indicated previously, this rate of rise in the number of jobless in the District during the past five months exceeds the rate of increase in the nation, and is explainable chiefly in terms of layoffs in durable goods manufacturing establishments, highly significant in the District's economic life. Greater-than-seasonal employment reductions also have occurred in wholesale and retail trade, railroads, and some service establishments.

Among the durable goods manufacturing industries most affected by recent layoffs are gray iron foundries; forging, stamping, and metal finishing; electrical machinery, particularly fractional horsepower motors and electrical supplies; home appliances; automobile parts and accessories; and furniture. Lesser declines of a non-seasonal nature have occurred in the nondurable goods industries of the District, e.g., chemicals, clothing, and paper. The



food industries as a group have registered drops, but not of greater degree than might be explained by seasonal factors, and in some cases, such as the brewing industry, rehiring for spring and summer already has begun.

The expected tendency for hours and earnings in manufacturing plants—and hence total manufacturing payrolls—to decline simultaneously with employment has become evident in the factories of the District. Overtime work is now practically nonexistent, and in numerous instances firms have reduced operations temporarily to a four-day week. As a result, aggregate factory payrolls in the District, as in the nation, have declined somewhat more than the number of employees. However, payrolls in the District's stores, offices, and other nonmanufacturing establishments have not shown a comparable trend.

Within the Midwest, the states of Wisconsin and Iowa now appear to have somewhat less unemployment in proportion to labor force than have Illinois, Indiana, and Michigan. Unemployment claims represent about 3.5 per cent of all covered employment in Iowa and Wisconsin, five per cent in Illinois, and almost six per cent in Michigan. This appears to be further reflection of the relatively greater employment declines in durable goods industries, since these industries are relatively less important in Wisconsin and Iowa than in the other states of the District.

In general, business in the medium-sized cities and small towns in the Midwest has been somewhat more adversely affected by the employment slide-off than in the larger cities. Bloomington in Illinois; Fort Wayne, Kokomo, and Logansport in Indiana; Muskegon and Jackson in Michigan; and Janesville in Wisconsin are outstanding but not unrepresentative examples of smaller cities in which employment cut-backs have been quite marked.

WHY RISING UNEMPLOYMENT?

Aside from previously mentioned seasonal trends and the normal increase in the total labor force, two principal kinds of economic distortions are responsible for the adjustments now resulting in increased unemployment. The first of these is an outgrowth of the conversion of existing productive capacity and the building and manning of new plants to fulfill wartime needs. The later reconversion of these resources to postwar markets dominated by unusual backlogs of civilian demand has had the effect of continuing this distorted use of the total labor force. Even though much of the necessary readjustment has taken place gradually in the postwar period, the year 1948 still found nearly 43 per cent of all nonagricultural workers engaged in manufacturing as compared with about 33 per cent before the war (see *Business Conditions*, November 1948). Moreover, an increased fraction of this larger-than-normal manufacturing force

UNEMPLOYMENT COMPENSATION CLAIMS
Seventh District States, 1945-49

Week Ended	Illinois	Indiana	Iowa	Michigan	Wisconsin	Five Seventh District States	Seventh District States as a per cent of the United States
Dec. 1945	124,683	50,479	10,746	140,524	20,337	346,769	21.1
Dec. 28, 1946	57,293	10,137	4,372	36,566	5,541	113,909	13.6
Jan. 25, 1947	69,932	13,568	6,631	55,551	8,094	153,776	13.8
Feb. 22, 1947	67,948	13,929	6,284	56,456	7,638	152,255	12.9
Mar. 29, 1947	57,172	12,866	5,331	37,354	6,500	119,223	10.8
Apr. 26, 1947	71,535	11,194	5,194	37,584	5,830	131,337	11.5
May 31, 1947	70,025	12,681	3,158	41,404	5,280	132,548	11.9
June 28, 1947	69,984	10,702	3,706	30,947	4,982	120,321	10.4
July 26, 1947	69,095	12,399	3,780	45,445	5,404	136,123	11.8
Aug. 30, 1947	60,066	14,546	3,105	44,018	5,932	127,667	13.0
Sept. 27, 1947	51,437	6,649	2,030	32,380	4,575	97,071	11.9
Oct. 25, 1947	43,852	10,005	2,125	53,977	4,054	114,013	14.7
Nov. 29, 1947	41,151	9,070	2,346	24,829	4,063	81,459	11.6
Dec. 27, 1947	38,748	11,275	2,228	26,726	5,985	84,962	11.9
Jan. 31, 1948	58,488	17,077	5,940	37,441	8,791	127,737	12.9
Feb. 28, 1948	59,521	18,403	6,620	60,114	9,368	154,026	14.3
Mar. 27, 1948	58,579	16,112	6,404	54,838	9,428	145,361	13.6
Apr. 24, 1948	83,112	17,310	4,593	47,206	7,583	159,804	14.3
May 29, 1948	83,840	15,555	3,767	43,097	6,125	152,384	14.5
June 26, 1948	79,047	12,715	3,504	43,243	5,677	144,186	14.1
July 31, 1948	76,061	15,587	3,444	27,614	5,456	128,162	12.9
Aug. 28, 1948	65,863	17,200	3,099	37,960	5,960	130,082	14.4
Sept. 25, 1948	57,848	10,650	2,522	38,585	6,129	115,734	13.9
Oct. 30, 1948	46,901	12,400	2,670	25,488	5,201	92,660	11.1
Nov. 27, 1948	49,754	13,900	3,275	27,816	6,694	101,439	11.0
Dec. 25, 1948	59,613	17,530	4,550	40,204	11,516	133,413	11.5
Jan. 29, 1949	88,412	28,250	8,925	65,412	20,962	211,961	12.8
Feb. 26, 1949	98,872	33,990	11,550	74,565	23,389	242,366	13.4
Mar. 12, 1949	104,250	39,580	11,925	89,875	24,406	269,936	13.9

[1]Includes compensable and waiting-period claims; excludes initial claims.
SOURCE: U. S. Bureau of Employment Security.

has been employed in making durable goods, such as steel, machinery, automobiles, and household goods.

The temporary demands which justified the increased capacity in many individual lines have since declined, resulting in excessive capacity in relation to "normal" needs at least at prevailing prices. This situation is true not only as respects plant capacity and equipment, but also the work force. Marginal workers were kept on payrolls because the output was badly needed, and could be sold at prices making the employment of this labor profitable. As the most pressing needs have been met, however, a gradual reduction of this marginal work force has taken place. Many of these workers were above normal working age, and have since retired from the labor force. Others are simply less desirable employees for other reasons than age and continue in the ranks of the unemployed.

The second type of economic distortion is in the realm of production costs and selling prices. Raw material prices in many cases—especially those in which gray markets developed—reached fantastically high levels since the end of the war. Three successive rounds of wage-rate increases not accompanied by significant improvements in productivity (see *Business Conditions*, November 1948) added further to rising costs of production. These increased costs of production in turn were reflected in higher selling prices, in many cases to the point where large segments of the expected market were "priced out."

Readjustments to correct these two broad types of distortions have coincided with the period of greatest seasonal lull, that is, the winter months. With high fixed costs, high break-even points, and rigid wage-rates, numerous firms have found that the only satisfactory "adjustment" is to reduce the work force, particularly the above-mentioned marginal workers, eliminate all overtime work, and in some cases, reduce the work week to less than 40 hours. The regular additions to the labor force at the same time greatly intensify the rising unemployment problem.

FUTURE PROSPECTS

With the expected seasonal increases in lines directly associated with agriculture and construction, unemployment may decline, or at least level off, in the months immediately ahead. This trend, however, will be counterbalanced by the addition of a large group of June graduates to the labor force, including many G. I.'s now finishing their training. The problem is not whether such graduates individually will find employment—most of them will—but whether over-all employment opportunities will increase sufficiently to absorb the net increment. Withdrawals from the labor force, of course, are occurring continuously as a result of deaths, retirement of aged, and other reasons, but these will not by any means offset completely the expected new entrants.

Among the factors presently affecting the prospects for business and employment in the months immediately ahead is the trend of employment itself. The decline in sales—basic cause of initial layoffs—tends to be accentuated during the early stages by the adverse psychological effect upon sales of the layoffs themselves. Consumers are inclined to tighten their belts. Hesitancy to buy, especially where instalment commitments are involved, becomes the order of the day. This first effect, however, may be temporary and could disappear quite readily if general rehiring begins to take place.

A second and basically more fundamental influence is consumer reaction to the trend in prices. Declines have taken place in the prices of many finished products, including such consumer durables as refrigerators and other home appliances. Will a sufficient number of consumers be stimulated to new buying by the initial price reduction, or will too many expect further declines and hold off purchases in anticipation of them? As was stated earlier, the current month seems likely to test the strength of the seasonal upturn in buying, and may well provide the answer to this important question. Likelihood that these adjustments can continue throughout 1949 without a serious and general decline in business appears to be most profitably assessed by balancing the factors of strength against the weaknesses already pointed out.

Among the factors of the underlying strength in today's business situation are the following:

1. There is general agreement that the postwar desires for consumer goods, both durable and nondurable have not been satisfied. Once price-quality adjustments have been accomplished, a vast market is in prospect.
2. Financial strength characterizes the entire economic system. In general, this is true of farmers, urban consumers, and businesses, as well as of financial institutions. An unprecedented volume of well distributed savings exists and, although many families have exhausted their liquid assets, a significant fraction of these savings will be ready to come into the market when the owners consider that prices are right.
3. There has been very little speculation during this postwar period. Speculative bubbles are more likely to burst suddenly than the kind of price-income inflation which has taken place in this postwar period.
4. Government appears more willing to take actions designed to strengthen weak segments of the economic structure, and numerous "support" programs already are operative or can readily be made so. It has been widely accepted that during 1947 and 1948 such programs as veteran payments for bonuses and terminal leave bonds, increased military expenditures, and the European Relief Program had stimulating effects upon business.

Although continuing readjustments still lie ahead and "confidence" in business is decidedly lacking, the basic economic conditions leading to a major recession this year do not now appear to be present. On balance, it seems more likely that, while unemployment in 1949 will average higher than in 1948, the year is not likely to bring sharply spiraling joblessness. In retrospect, the year 1949, it still seems likely, will be classified as an integral part of the postwar boom.

Developments in Social Security—I

Average Payments Up Sharply From Prewar Levels In Most Programs

The recent proposals of the President have directed public interest in the government programs providing for the relief of various types of dependency. These are among the most important services of the Federal, state and local governments, in terms of both expenditures and the number of persons benefiting from the services (see Table 1). In fiscal 1948, more than 3 billion dollars was spent on the seven major programs for the relief of economic distress caused by old-age, unemployment, loss of parental support by children, and blindness. In October 1948, 7.8 million persons—more than five per cent of the population—were recipients of payments for old-age and survivors insurance, unemployment insurance, railroad retirement, disability, and unemployment insurance, and public assistance which comprises old-age assistance, aid to dependent children, aid to the blind, and general assistance.

Five of the seven programs were initiated on a national scale in 1935 by the Social Security Act and involve fiscal and administrative participation by the Federal Government. The Railroad Retirement Act of 1937 and the Railroad Unemployment Insurance Act established insurance programs based upon payroll taxes on carriers and their employees. The seventh program, general assistance, at present is entirely financed and administered by the state and local governments. Two distinct approaches to the problem of dependency are incorporated into these programs. Old-age and survivors insurance and unemployment insurance, as their names imply, are based on the principles of contributory insurance, with beneficiaries required to qualify on the basis of previous contributions. Since in both programs, part or all of the contributions are paid by the employer rather than the insured, qualifications are stated in terms of previous work experience. Recently, half of total employment has been covered by these two programs.

The four public assistance programs are designed to assist persons in need due to certain categories of deficiencies in the capacity for support. At the present time, most of those receiving public assistance are persons generally regarded as unemployable—the very old and the very young, the blind, and those suffering from temporary or permanent physical or mental disability. However, during the depression period, the assistance rolls, mostly general assistance, were crowded with many persons willing and able to work.

The distinction between social insurance and public assistance is associated with important differences in the operation of the two types of programs. In social insurance both qualification for benefits and the size of individual benefit payments can be readily determined by the use of clearly-defined criteria such as previous earnings and present employment or age status. In public assistance programs, time-consuming investigation of individual need and resources is required in order to determine both initial eligibility and the amount of assistance granted.

TABLE 1

PAYMENTS, BENEFICIARIES, AND RECIPIENTS IN MAJOR SOCIAL INSURANCE AND PUBLIC ASSISTANCE PROGRAMS SEVENTH DISTRICT STATES

(Payments in millions of dollars, fiscal 1948)
(Persons in thousands, October 1948)

All Programs	Illinois		Indiana		Iowa		Michigan		Wisconsin		Seventh District States		United States	
	Number of Persons	Payments	Number of Persons	Payments	Number of Persons	Payments	Number of Persons	Payments	Number of Persons	Payments	Number of Persons	Payments	Number of Persons	Payments
All programs	465	202.1	184	61.0	110	44.6	322	142.6	134	54.6	1,215	504.9	7,833	3,114.3
Old-age and survivors insurance[1]	136	33.3	62	13.9	27	5.5	96	22.9	48	10.9	369	86.5	2,254	497.6
Unemployment insurance	41	47.8	7	8.9	2	2.5	21	36.1	4	4.0	75	99.3	659	757.7
Railroad retirement, survivor, disability, and unemployment insurance[2]	49	21.0	22	10.4	13	6.8	9	7.3	7	6.6	100	52.1	390	268.1[5]
Old-age assistance[3]	125	60.9	50	19.2	48	24.2	91	41.9	48	21.1	362	167.3	2,469	1,041.9
Aid to the blind[3]	5	2.4	2	.8	1	.7	2	.7	1	.6	11	5.2	85	38.6
Aid to dependent children[3]	57	21.7	21	4.7	12	3.6	50	19.6	17	7.4	157	57.0	1,176	327.0
General assistances[3,4]	52	15.0	20	3.1	7	1.3	53	14.1	9	4.0	141	37.5	800	183.4

[1]Data on persons are for June 30, 1948 except for United States total; state data on payments estimated.
[2]Estimated state data on persons are for June 30, 1948 except for United States total, and include persons receiving lump-sum survivor benefits.
[3]Excludes all persons in whose behalf payments are made and all such payments made for or in behalf of recipients, such as payments for medical care, burial, foster home care, etc.
[4]Number of persons estimated from data on the number of cases.
[5]Total includes estimated lump-sum survivor benefits.
Note: Expenditures for administration of these programs, estimated at 250 million dollars, are not included in this table.
SOURCES: Social Security Bulletin; Railroad Retirement Board.

Other distinctions have arisen due to differences in financing. Funds for public assistance usually are appropriated from the general revenues of the Federal, state, and local governments. In most places, this has meant that the need for relieving dependency has been tempered by fiscal considerations. Social insurance has been financed so far by payroll tax contributions. It is often assumed that payroll taxes levied on employers for unemployment insurance are wholly shifted to their employees in the form of lower wages. To the extent that these taxes are paid by the general public in the form of higher prices, the right of employees to maximum unemployment benefits regardless of need is negated.

DEVELOPMENTS SINCE 1939

Substantial changes have occurred during the decade in which these programs have been fully operative. The total number of persons benefiting from the programs is approximately one-half million less than in 1939. In that year more than half were recipients of general assistance, while in 1948, this group made up only a small fraction of the total. Today the aged—including in this designation both beneficiaries of old-age and survivors insurance and recipients of old-age assistance—comprise the major portion.

Average benefits and payments have increased very substantially in all programs, except old-age and survivors insurance (see Table 2). Increases in average monthly payments in public assistance have been accelerated by the sustained rise in the cost of living in the past decade. Federal fiscal participation was extended in 1946 and 1948. Average payments have increased more than the Consumers' Price Index since 1939. The low number of recipients during the war years encouraged many states to increase individual payments in the direction of fully meeting needs. State legislatures have provided for higher maximum payments, and in some cases, the complete removal of maximums.

The basis for increases in average benefits in social insurance has been different. Weekly benefits in unemployment insurance are based on formulas usually designed to compensate for approximately 50 per cent of the wage loss, and thus the amount of each benefit is determined by each person's previous earnings. With the rise in dollar earnings of the past decade, benefits of necessity increased; however, it would have been necessary to raise absolute statutory maximums in order to allow beneficiaries to fully realize the higher benefits made possible by their higher earnings. In many places, ceilings continue to prevent this realization. Although the increase in average benefits is in no way based on the increase in the cost of living, benefits have more than kept pace with living costs over the decade as a whole. However, since September 1945 benefits have risen but seven per cent, compared to an increase in the Consumers' Price Index of 30 per cent in that period.

Benefits in unemployment insurance have two dimensions: duration as well as amount. The increases in the maximum duration of benefits allowed by state laws since the inception of the unemployment insurance program have been extensive. In 1937 and 1939, the typical state law permitted a maximum of 16 weekly payments; by the end of 1948 the typical state provided for a 20-week maximum. Moreover, there were seventeen states with maximums in excess of 20 weeks at the end of 1948 where there had been none in 1939. The increase in the maximum duration of benefits has contributed to reducing the burden on general assistance of providing relief to unemployed persons exhausting their benefit rights.

Average benefits in old-age and survivors insurance rose but slightly from 1940, the first year in which monthly benefits were paid, to 1948. Like unemployment insurance, old-age and survivors insurance benefits are based on previous work experience. The Social Security Act formula provides primary benefits ranging currently from 17 per cent of the average monthly wage since 1936 of those receiving maximum benefits to 40 per cent of an average monthly wage of $50 or less; in addition to this there are provided benefits for the wives and minor children of beneficiaries equal to one-half the primary benefit. Since primary benefits are computed in terms of the average monthly wage throughout the beneficiary's

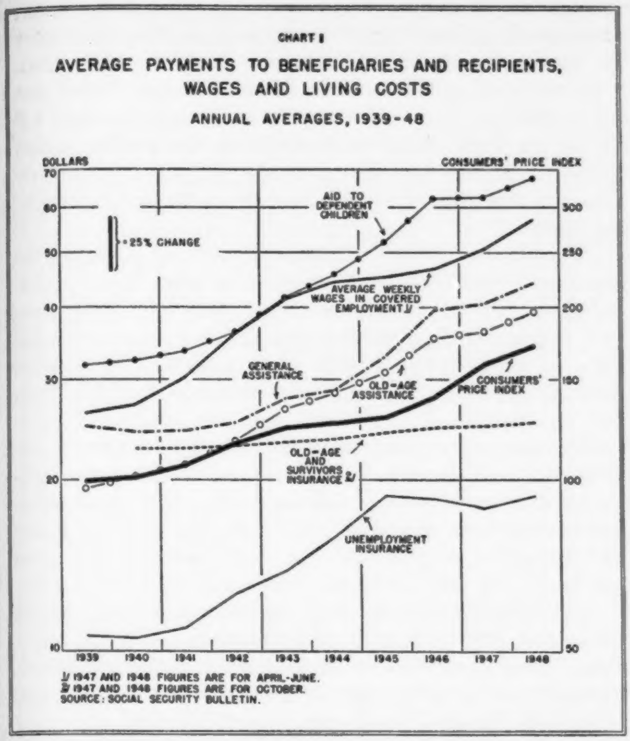
TABLE 2

AVERAGE PAYMENTS TO BENEFICIARIES AND RECIPIENTS WAGES AND LIVING COSTS, 1939-48

(Data are annual averages, except where otherwise indicated)

Item	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Average monthly benefit:[1]										
Old-age and survivors insurance	....	$22.69	$22.69	$22.96	$23.29	$23.58	$24.14	$24.63	$24.85	$25.28
Average weekly benefit:[2]										
Unemployment insurance	$10.66	10.56	11.06	12.66	13.84	15.90	18.77	18.50	17.83	18.77
Average weekly wage in covered employment[3]	26.15	27.02	30.23	35.90	41.25	44.28	45.11	46.69	50.82	57.21[4]
Average monthly payment:[5]										
Old-age assistance	19.30	20.26	21.27	23.37	26.66	28.43	30.88	35.31	36.24	39.27
Aid to the blind	25.44	25.37	25.81	26.54	27.95	29.31	33.52	36.67	38.19	41.30
Aid to dependent children	31.77	32.39	33.63	36.27	41.57	45.58	52.05	62.23	62.44	67.62
General assistance	24.89	24.28	24.39	25.23	27.76	28.77	32.83	39.48	40.51	44.07
Consumers' Price Index	99.4	100.2	105.2	116.5	123.6	125.5	128.4	139.3	159.2	171.2

[1]Average primary benefit in force, December 31, 1940-46, and average primary benefit in current-payment status, October 1947-48.
[2]Average weekly benefit for total unemployment.
[3]Data for 1947 and 1948 are quarterly averages, April-June of each year.
[4]Estimated.
[5]Average payment per case.
SOURCE: Social Security Bulletin.

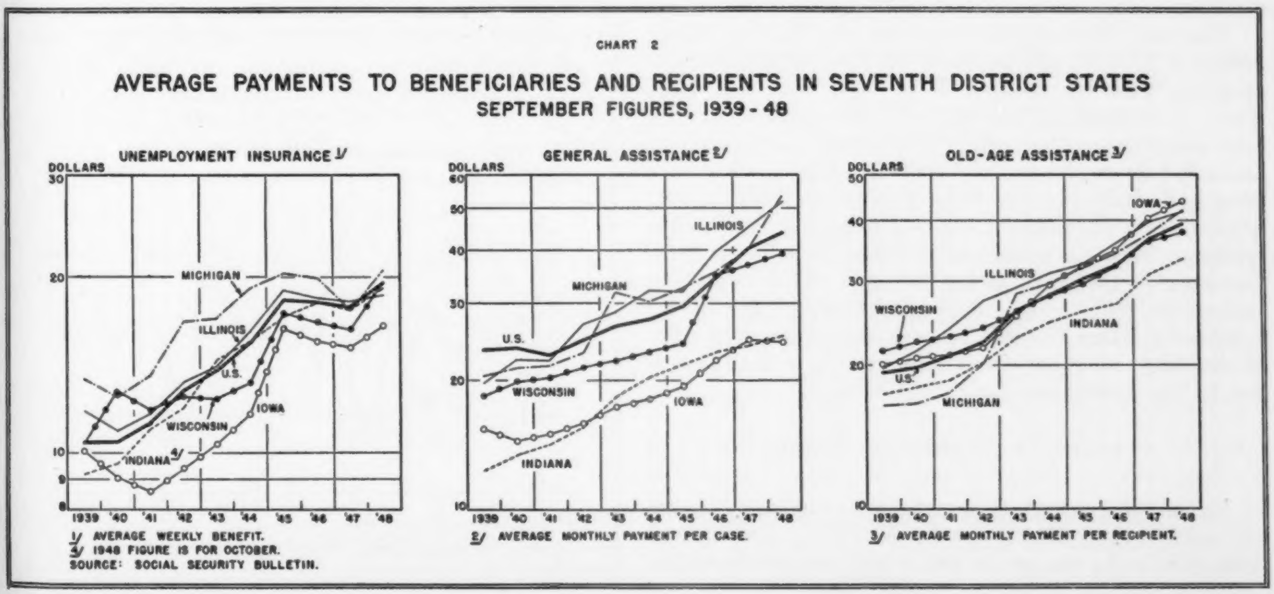


working life back to 1937, the lower wage levels prevailing in prewar years tend to keep the levels of benefits down. However, as the system matures, the advances in wage levels which have occurred in the past decade will be increasingly reflected in higher average monthly benefits.

In Seventh District states, average payments have followed the national trend, increasing 100 per cent or more in the past decade, in most programs (see Chart 2). In October there were an estimated 1.1 million persons supported by benefits and assistance payments in Seventh District states. During the same month, payments to beneficiaries and recipients in Seventh District states amounted to more than 37 million dollars. Illinois and Michigan account for approximately two-thirds of both totals, a larger share than is explained by their population alone. The greater extent of urbanization in these two states with the subsequent loss in economic self-sufficiency is among the most important causal factors.

Three major causes have been responsible for most of the changes—qualitative as well as quantitative—which have occurred since 1939. Unemployment during the latter part of the decade has not been a major problem; the relatively small amount of unemployment which has existed has been covered by the expansion of the unemployment insurance system. At present, the relief rolls largely are supporting special types of involuntary unemployment—that caused by temporary or permanent disability, amounting to as much as half the total number of general assistance cases, and that of the "marginal" members of the labor force. As a result of the decline in unemployment, expenditures per inhabitant for general assistance declined two-thirds between fiscal 1939 and fiscal 1948. A second major factor operative in the past decade has been the increase in the price level, resulting in the very large increases in public assistance payments.

The third cause has been the change in the age composition of the population. The estimated increases since 1940 in both that part of the population 65 or more years of age and the child population have been greater percentagewise than the increase in the total population. Although the proportion of these sectors of the population receiving assistance was almost the same in 1940 and 1948, increases in the numbers of these groups have caused large increases in the number of recipients. Per inhabitant expenditures for old-age assistance have more than doubled and those for aid to dependent children have almost tripled in the period. In addition, the old-age and survivors insurance system is supporting an increasing proportion of the aged population.



THE HOG-CORN-PORK SITUATION

(Continued from Inside Front Cover)

ber may have been accurate at that time, they still might not materialize since adjustments to unforeseen developments can be made after plans are reported. If conditions should change materially within about two months following breeding, some of the bred sows and gilts can be marketed for slaughter without appreciable price discount, as apparently was done in 1946, or also, additional gilts can be bred for late spring farrow.

It is standard practice on many farms to breed more animals than it is intended to carry to farrowing time. This permits some delay in reaching a final decision on numbers. Only about one-third of the sows and gilts to farrow in the spring season normally are bred at the time of the December 1 intentions report. Also, the number of pigs saved per litter at farrowing time, which has ranged from a low of 5.12 in 1924 to a high of 6.46 in 1946, materially affects the size of pig crop. Thus, the number of pigs which may be raised to marketable weight from the 1949 spring pig crop still is quite uncertain and could be materially above or below the December indication of 56.5 million head. At this time, it appears that the increase may be somewhat more than 10 per cent.

Reflecting the large supply of corn on farms, an extremely favorable hog-corn ratio prevailed during the breeding season. In these circumstances the indicated increase in pig numbers for the spring of 1949 suggests that many farmers hesitate to assume the risks involved in increasing hog production since they can avoid possible losses from price declines on corn and hogs by placing corn under Government loan at about $1.42 per bushel. At an average hog-corn ratio of 12 this would be equivalent to $17 hogs. The Government is also committed to the support of hog prices at 90 per cent of parity through March 1950. But farmers' experience with price supports for the large wartime production of hogs raises doubts as to their effectiveness if tested by adverse market conditions. No well developed and effective price support techniques have been demonstrated for hogs and pork.

The hog price support level for the October-March period of 1949-50 will be based on the September index of prices paid by farmers. If by that time the index should have declined five per cent, the support price for hogs would range from about $16.50 early in October to about $14.50 at the end of December, Chicago basis for good and choice butcher hogs. This prospective support level is below the prices at which a large part of the 1948 spring pig crop was marketed by about 30 to 35 per cent. The great uncertainty as to the price which would be realized for 1948 corn sold as hogs in the winter of 1949-50, apparently makes the corn loan an attractive alternative to the risks and effort involved in making a large expansion in hog production above the 1948 level.

PATTERN OF MARKETINGS VARIES

In past years, the number of hogs slaughtered in the six month period—October to April—usually has reflected fairly closely the changes in size of pig crop the preceding spring (see Chart 2). The volume of marketings in any one month or week in this period, however, may show no relationship whatever to the size of the pig crop. Thus, a 10 per cent increase in the number of pigs raised does not guarantee that marketings at any particular time will be 10 per cent above marketings in the similar period of some previous year, but it would indicate a sizeable increase in hog marketings during most of the usual marketing season.

The pattern of hog marketings and hog prices in the last two seasons has been unusual in some repects. Formerly, in years of large corn crops, relatively cheap corn, and increasing hog production, farmers commonly fed hogs to heavy weights with the result that marketings were delayed and the January-February recovery from the low prices of December was less marked than in other years. Also, prices normally averaged higher in the spring than in the fall. In years of short corn crops, relatively high corn prices, and decreasing hog production, marketings from the spring pig crop usually were earlier and at lighter weights with the result that prices showed a distinct rise after the first of the year (see Chart 3).

The distribution of hog marketings in the fourth quarter of 1948 were somewhat unusual, being similar to years when corn was in short supply and high priced. Federally inspected slaughter of hogs in October through December was equal to 30 per cent of the 1948 spring pig crop, considerably more than the average of 27 per cent for 1937-46.

This unusual marketing pattern in 1948 probably reflected a fear on the part of many hog producers of a sharp break in hog prices later in the season. Such an appraisal of the outlook may prevail in 1949 also, and would influence marketings in a similar manner even with a favorable feeding ratio. Even so, the fourth-quarter decline in hog prices this year might be no greater than the 25 per cent September-December price decline in 1948. This still would be materially greater, however, than the average decline of 17 per cent for the 20 year period 1920-39.

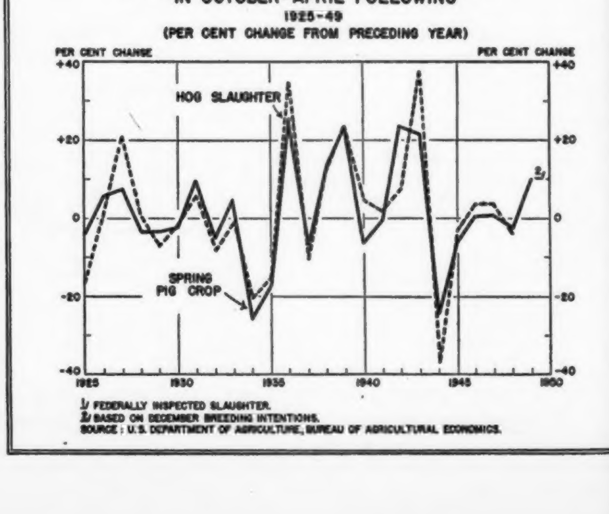
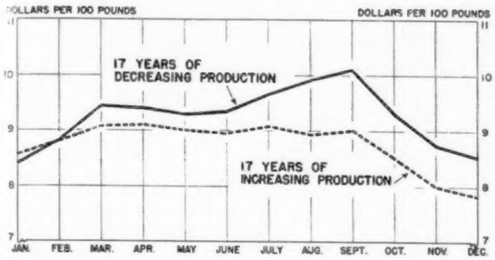


CHART 3

SEASONAL CHANGES IN HOG PRICES BY YEARS OF INCREASING AND DECREASING PRODUCTION[1]



[1] INCLUDES 1900-38 EXCEPT FOR FIVE YEARS OF VERY SMALL PRODUCTION CHANGES.
SOURCE: IOWA STATE COLLEGE.

Hog slaughter in the first quarter of the year was about equal to the first quarter of 1948. Hog prices normally increase about 10 per cent during this period. In the second and third quarters of the year hog slaughter is expected to exceed the year ago level, reflecting the eight per cent increase in the 1948 fall pig crop. This undoubtedly will keep the summer rise in hog prices from reaching as high a level as in 1948. Fourth-quarter marketings, reflecting the increase in spring pig crop and farmers decisions relative to feeding and marketing schedules, are expected to show a substantial increase over the fourth quarter of 1948.

MORE HOGS IN THE LONG-RUN

From a longer time viewpoint, there are some additional factors which merit consideration in the hog situation. If, as many students of agriculture believe, the feed grain production capacity of farms has increased permanently in recent years as a result of such technological developments as more productive seed, better insecticides, improved tillage methods, increased application of fertilizer, and the like, it follows that the livestock production capacity of farms has increased also. The supply of grain for livestock feed in the years immediately ahead may exceed the large supply of the current season. If realized, annual production of hogs may range around 100 million head as compared with 85 million in 1948 and 77 million average for 1937-41. This would give a total annual production of pork in excess of 12 billion pounds, compared with about 10 billion pounds in 1948. Total meat production, however, would not increase proportionally as the capacity for beef and lamb production will be limited for several years by the recent reductions in number of cattle and sheep on farms. For the longer-run period, of course, increased feed supplies will encourage increased production of beef and lamb as well as pork.

In view of these production prospects, pork probably will be relatively low priced compared with other meats for several years ahead. The 1935-40 experience may be repeated. In these years pork increased from 41 to 52 per cent of total per capita meat consumption and the wholesale price of hog products declined relative to other meat prices. Although there is some indication that over the past 22 years consumers have shown an increasing preference for other meats over pork, pork production and consumption probably will be at high levels in the years immediately ahead unless the production and use of feed grains is restricted by unusually bad weather or Government programs.

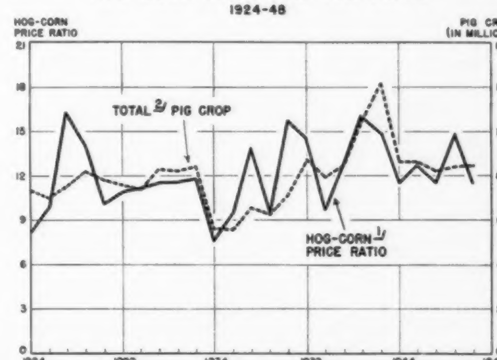
With a high level of pork production, lard is likely to resume its prewar problem status. Production will exceed domestic requirements and prices will be very low unless an active export demand prevails. Recent declines in lard prices have contributed to the weakness in hog prices, particularly of the heavier weights, and in view of large potential supplies of competing fats and oils, may continue to exert a depressing influence. In recent years lard production has averaged between 30 and 35 pounds per hog slaughtered. A 10 cent per pound price decline for lard, such as occurred during 1948, accounts for about a $1.50 per cwt. decline in hog prices.

Historically, hog production and prices have tended to run in cycles with two to three years of increasing production and declining prices, followed by two to three years of declining production and rising prices. In the present cycle, hog production showed only minor increases in 1947 and 1948. This trend, no doubt, will continue at an accelerated rate through 1949 and, barring a corn crop failure this year, probably will continue into 1950.

The changing ratio of prices of hogs to corn is cited frequently to explain changes in the number of hogs raised by farmers. This is an important factor but it fails to explain many changes which occur (see Chart 4). It may be of even less significance in the future if Federally sponsored price support and grain storage operations are continued and enlarged. Such programs, if handled skillfully and directed toward a stabilization of supply rather than the maintenance of prices, might reduce the cyclical variations in hog production. Currently, however, the major objective of these programs is to support grain prices, largely ignoring their effects on livestock production.

CHART 4

HOG-CORN RATIO AND PIG CROPS
1924-48



[1] NUMBER OF BUSHELS OF CORN EQUAL IN VALUE TO 100 POUNDS OF LIVE HOGS; AVERAGE OF 12 MONTHS BEGINNING OCTOBER OF PRECEDING YEAR.
[2] PIGS RAISED.
SOURCE: U.S. DEPARTMENT OF AGRICULTURE, BUREAU OF AGRICULTURAL ECONOMICS.

SEVENTH FEDERAL

RESERVE DISTRICT